1999

Mercantilism

Robert S. DuPlessis
Swarthmore College, rduples1@swarthmore.edu

Recommended Citation

Robert S. DuPlessis. (1999). "Mercantilism". *Encyclopedia Of The Renaissance*. 114-115.
http://works.swarthmore.edu/fac-history/410

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Government intervention in economic life for fiscal, political, social, and other reasons has recurred throughout history. Following Adam Smith, who in The Wealth of Nations (1776) described--and denounced--what he called "the mercantile system," many scholars hold that state efforts in Europe between the fifteenth and eighteenth centuries became more determined and comprehensive. To foster both economic development and national power and plenty, officials, businessmen, and publicists proposed measures with several related objectives: expanding domestic industry, capturing larger shares of foreign trade, augmenting bullion stocks, and assuring favorable commercial balances. Spurred by economic crisis, sharp competition in international and colonial trade, and military ambitions in Europe, and sustained by elaborated theoretical underpinnings and strategically placed ministers, mercantilism (which term was introduced by German economic historians about 1860) was at its height in western Europe during the seventeenth century. Although increasingly criticized in their original heartland, mercantilist tenets and practices were thereafter adopted by so-called enlightened absolutists in central and eastern Europe.

Early Steps. The Renaissance period constituted the first stage in the gradual and unsystematic implementation of mercantilist political economy. As in the Middle Ages, guilds and municipalities remained [were] intimately concerned with economic affairs. Corporate bodies enforced local production monopolies by dictating labor supply and training, output maxima, and quality standards. Civic administrators directed their attention toward advantaging [benefiting?] their producers and consumers at the expense of the surrounding countryside and other towns. Thus, they enacted provisioning policies to secure adequate, cheap supplies of foodstuffs and raw materials for urban needs and struggled to impose regional market monopolies for their artisans and merchants.

While acknowledging these efforts as crucial forerunners, interpretations of mercantilism concentrate on central governments' policies and projects. [The] Italian city-states took important early steps. Venice operated the Arsenal, long the largest work site in Europe, to build and outfit the galley fleet that was so vital to the city's domination of eastern Mediterranean trade and finance. In Lombardy, novel crops like rice and mulberries were planted, and substantial irrigation works built, with the backing of the Visconti and Sforza dukes. Like the Bentivoglio at Bologna, the Medici in Florence, and other princes, the rulers of Milan assisted with privileges (and, at times, funds) the establishment of new crafts, most notably in metal and weapons trades, though including textiles, glassmaking, and luxury goods as well.

Measures to quicken the economy and strengthen the state likewise accompanied the rise of monarchies in western Europe. From an early date England sought to protect woolens, its chief industry. It temporarily banned raw wool exports in 1258, subsequently taxed wool sent abroad and, in the mid-fifteenth century, forbade entry to foreign woolens and silks. Other enactments attempted to prevent the outflow of precious metals and restrict foreign merchants to the benefit of natives. In France the crown's financial needs at the close of the Hundred Years' War (1337-1453) and itss goal of rebuilding state and economy led Louis XI (ruled 1461-1483) to assist mining ventures and cheap woolens manufactures for export, try to hinder bullion transfers abroad, and, by fostering silkmaking, curb luxury imports and thereby contribute to a positive balance of payments. These two countries also pioneered monopoly trading companies such as the English Merchants of the Staple and Merchant Adventurers, and several associations authorized by the French crown to manage international commerce and develop maritime shipping in the Mediterranean.

The sixteenth century. Mercantilist schemes of some kind were adopted by most major states and many of those of the second rank in response to several forces during the sixteenth century. These forces included the costs of centralized state-building, the growth of Europe's first New World colonial empires, and the accelerating export of gold and silver necessitated in particular by rising trade with Asia. In this period, too, tracts began explicitly to back interventionist approaches. Some called for protecting existing industry and developing new ones whose products could supplant imports. Others focused on retaining or if possible augmenting bullion supplies, a demand that reinforced the preoccupations of political leaders who believed that the size of monetary reserves determined the extent of state power.

Individual polities pursued strategies that varied according to the specific combinations of opportunities and threats they faced, although all relied on some mix of privileges and exclusions. In Elizabeth I's reign (1558-1603), England sought with cash subventions and temporary monopolies to attract foreign artisans who would start manufactures hitherto unknown there. Charles V (ruled 1516-1556) hoped to aid Spanish industry by forbidding raw materials exports. The Medici dukes, in contrast, relied on interdictions of competing imports to assist Tuscan textile crafts. Monetary awards, exclusive rights, high tariff barriers, and even--under Francis I (ruled 1515-1547)--the founding of a tapestry workshop near the royal palace in Fontainebleau were ventured in France. At the end of the period there began to appear the direct predecessors of the great chartered companies that, building on earlier staple organizations, were to loom so large in seventeenth-century overseas trade. Regulations designed to enhance monetary stocks became yet more numerous, diverse, and extreme; they ranged from placing all exchange transactions under the control of government officials to prohibiting outright all bullion exports.

An Assessment. Renaissance mercantilism was less ambitious than its successors, and it enjoyed weaker conceptual and ministerial support. Few of the projects so hopefully initiated were destined to flourish; indeed, most successful economic innovations owed very little to state assistance. To be sure, ducal edicts helped agricultural projects around Milan to overcome landlord and peasant recalcitrance. Again, England progressively restricted wool exports, limited the activities of foreign merchants, and protected paper, glass, sugar refining, and other nascent manufactures. But no government had sufficient revenues [adequately] to fund new industries [adequately], so nearly all of those dependent on state largesse soon foundered. Nor did states dispose of the bureaucratic resources needed to enforce restrictions on bullion flows or other financial dealings. Despite efforts to reduce tolls, moreover, internal barriers continued to hobble market operations. Finally, fiscal needs typically prevailed over protectionist goals, so that, for instance, tariffs on exported manufactures were often higher than levies on imported raw materials.

The balance sheet of Renaissance mercantilism is therefore largely negative. Nevertheless, non-market policies of this period prefigured many of those later undertaken by governments seeking to foster national wealth and power through industrial development, commercial expansion, favorable trade balances, and precious metals stockpiling.